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Staff Study No. 13
(Draft, June 1, 1955)

The Consultative Group: A Review of Major Accomplishments
and Basic Problems

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S E C R E T

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THE CONSULTATIVE GROUP: A REVIEW OF MAJOR ACCOMPLISHMENTS
AND BASIC PROBLEMS

I. Accomplishments of The Consultative Group

Origin of U.S. and International Security Export Controls

U.S. strategic export controls toward the Soviet Bloc had their official origin in the National Security Council decision of December 17, 1947. This called for immediate U.S. export controls to the Bloc over commodities which were in critical short supply in the United States or which would contribute to the military potential of the Bloc. On March 1, 1948 the Department of Commerce established export license controls over U.S. exports to Europe.

The initial directive to seek similar selective export controls (i.e., parallel action) from the principal alternative sources in Western Europe and Canada came in the Cabinet decision of March 26, 1948. Previously, Section 117(d) of the Economic Cooperation Act of 1948 required limited parallel action.

On August 27, 1948 the U.S. Special Representative of ECA in Europe (OSR) was instructed by ECA and State to open discussions with ERP governments. At first, bilateral negotiations were carried on by the ECA Missions in the various OEEC countries. Early in 1949 discussions between the United Kingdom and France led to the formulation of an Anglo-French List, based on but much less comprehensive than the U.S. embargo and quantitative control lists (IA and IB). In July 1949 a U.S. - U.K. technical meeting took place in London concerning the differences in these lists. Similar bilateral discussions were held with France and the Netherlands in August 1949.

S E C R E T

S E C R E T

-2-

By mid-1949 it was recognized that a multilateral approach was required. During October 1949 several informal meetings were held in Paris to exchange preliminary views by the U.K., France, Italy, the Netherlands, Belgium, and the U.S. An informal Consultative Group (CG) was formed. Denmark and Norway were invited to attend as observers at the next meeting in November 1949, at which time it was decided to continue the CG on a permanent basis.

In January 1950 the CG met again, with Canada also attending, and agreed to establish a permanent Coordinating Committee (COCOM) and to invite the German Federal Republic to participate.

In February 1950 COCOM held its first meeting. Its formulation of strategic lists and basic principles were approved by the CG in May 1950. *Direct history*

On November 19, 1952, as a result of the active hostilities by Communist China and its clear identification with the Soviet Bloc, the CG directed ^{16 CG} COCOM to establish a permanent working group to be known as The China Committee (CHINCOM). This group held its first meeting on November 29, 1952.

Organization

The Consultative Group (CG) presently comprises fifteen participating countries (PCs): Belgium, Canada, Denmark, France (~~including Algeria, French Protectorates of Morocco and Tunisia~~), Greece, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Turkey, Western Germany, the United Kingdom (~~including Gibraltar, Cyprus and Hong Kong~~), and the United States. Representatives of participating governments hold the rank of Minister or Head of Delegation. The CG meets from time to time to consider general policy matters, to set the general frame of policy reference, and to review recommendations, unresolved issues and activities of COCOM and CHINCOM.

S E C R E T

S E C R E T

-3-

The Coordinating Committee (COCOM) consists of representatives of the CG participating governments. It is permanently established in Paris as the working committee of CG to consider and recommend specific control measures.

The China Committee (CHINCOM) provides participation in its deliberations and decisions by all PCs. *At the outset, however, in order to assure speedy handling of problems and to avoid unnecessarily burdening some delegations with increased representation, it was felt advisable to limit the permanent members to Canada, France, Japan, U.K. and U.S. CHINCOM is responsible for the development and implementation of the detailed aspects of security export controls and policy relating to Communist China. Its recommendations are referred to COCOM, CG, or direct to governments, depending upon the subject matter and the committee's action. Matters which involve the Soviet Bloc as a whole, including Communist China, are dealt with by COCOM.*

Major Accomplishments

Some of the major accomplishments of the Consultative Group and its subsidiary committees have been:

1. Establishment and maintenance of uniform, selective security export controls and basic policies, principles and criteria. These are voluntarily and cooperatively arrived at; provide an effective foundation for mutual effort; and buttress the ability of the cooperating countries to withstand successfully the trade tactics of the Soviet Bloc and criticism of controls within their own countries. No restraint is placed on the privilege of any PC to exercise more stringent controls.

S E C R E T

S E C R E T

-4-

2. Establishment and maintenance of a central forum for exchange of information and discussion of mutual control problems. The CG organization enables the cooperating governments to bring their collective judgment to bear on problems related to security export controls; to marshall their combined intelligence on commodity, security and economic issues; and to review on a continuing basis Soviet Bloc trade trends and tactics.

3. Establishment and maintenance of basic lists of strategic commodities. From the rather humble Anglo-French list there have now been evolved by the CG structure a series of basic control lists covering: (a) atomic energy embargo items; (b) munitions embargo items; (c) other embargo items; (d) quantitative control items; (e) surveillance items; and (f) special China embargo items. These lists have grown and contracted with changes in the international situation. The commodity definitions on these lists have undergone revisions found to be appropriate in the light of continuing review.

4. Establishment and maintenance of enforcement measures and controls, known as ancillary controls. The principal types of multilateral ancillary controls are:

a. Import Certification/Delivery Verification System (IC/DV). This is a procedure for assuring that items on the first four lists enumerated above will be imported and actually brought under the export control authority of the importing country. The effectiveness and simplicity of this procedure has led to its acceptance, ^{and} wholly or partially, by British and French Dependent Overseas Territories, Austria, Yugoslavia, Hong Kong, Macao, Belgian Congo, and Union of South Africa.

S E C R E T

S E C R E T

-5-

b. Transit Authorization Certification Scheme (TAC). This is a method for assuring that items on the first three lists enumerated above exported by a participating country will not be permitted to pass through another participating country to the Soviet Bloc without a specific certificate, authorizing such transshipment, from the original exporting country. Non-PCs are being invited to use this device and the following have already accepted it: New Zealand, Australia, Nyassaland, Gibraltar, Cyprus, French Morocco, Spain, Peru and Bolivia.

c. Transaction or Financial Controls. This provides governmental regulation of nationals of a cooperating country in financial transactions for the sale or disposal of specified items on the first four lists enumerated above to the Soviet Bloc, directly or indirectly, ^{where the goods} where the goods involved are situated outside the jurisdiction of the government exercising the control. The U.S. Treasury Department has maintained this type of control since June 1953. The control became effective in Canada on June 1, 1954 and in the United Kingdom on January 7, 1955. Other cooperating governments are expected to institute ^{financial} similar controls as soon as legislative or other legal requirements are completed.

d. Other procedures and devices for improving the effectiveness of strategic export controls. PCs exercise additional controls, not necessarily uniform in detail or extent, in compliance with mutually agreed principles to make their commodity export controls effective. These include controls relating to transportation, technical data, parts, and anti-diversion.

S E C R E T

S E C R E T

-6-

5. Recent Revision and Reformation of International Lists. During the first half of 1954, the CG participating governments undertook the vast and difficult task of overhauling the existing international strategic lists to the European Soviet Bloc. This was motivated to a great extent by the general feeling among the CG nations that the existing control lists should be adjusted to take account of current conditions and factors, such as: the probability of a long period of tension short of war; the desirability of expanding non-strategic trade with the Bloc in order to provide a sounder basis for peace; the need for increased trade by friendly countries arising from their greater internal strength and mounting production surpluses; and the practicability of achieving more effective controls over a shorter list of commodities with less complex definitions. The changes which became effective August 26, 1954 included (a) net reduction of international embargo lists from about 260 items to about 170, of quantitative control list from about 90 items to about 20, and of surveillance list from about 100 items to about 60; (b) redefinition and reclassification of a number of items; and (c) addition of a few items. Controls toward Communist China were not changed. No changes were made in the control of munitions and atomic energy items.

Since that time, uniform international lists of munitions and atomic energy items were agreed upon as annexes to the existing embargo lists. In addition, there has been an editorial codification of the Special China Embargo List and some adjustments of administrative rather than substantive nature with respect to the implementation of that list.

A few significant additions since (7)

S E C R E T

S E C R E T

-7-

Weaknesses

II. Basic Problems and Differences of Viewpoints in the Consultative Group

Conflict between Commercial and Security Interest

The United States has not been dependent upon foreign trade to the extent that some free world nations have been. U.S. trade, including Lend-Lease aid, with the Soviet Bloc has never represented a very significant proportion of total U.S. trade. ^{1/} In the United States, national security was and still remains the dominating influence in the trade picture. This has not been the case with most other free world countries, many of whom considered it vitally important to temper security aspects because of commercial trade necessities or interests.

When the Consultative Group was organized in 1949-50, the Soviet Bloc's designs and actions were clear to free world nations. Western European nations were struggling to recover from the ravages of World War II, attempting to stabilize their economies and to overcome scarcities of goods. Some were dependent upon the Bloc as a source of needed materials (e.g., grains, lumber, coal) and as a market for some indigenous products. Marshall Plan assistance from the United States provided valuable aid and made easier their adherence to U.S. security export control policy. For the most part, this subjugated but did not eliminate their commercial interests.

^{1/} In 1947, U.S. exports to the Soviet Bloc countries, including China, totalled \$693.5 million (Eastern Europe \$339.9 and China \$353.6); U.S. imports from these countries totalled \$224.9 million (Eastern Europe \$108.2 and China \$116.7). In 1954, U.S. exports to Eastern Europe were \$6 million and virtually none to Communist China; U.S. imports from Eastern Europe were \$42.3 million and *Outer Mongolia* from Communist China \$7 million *and none*.

S E C R E T

-8-

Today the general economic picture has changed. Despite the falling off of American economic assistance, Western European production has increased to a point where exportable surpluses are becoming increasingly available and competition for Western markets has intensified. Despite the recognized uncertainties of East-West trade, there is a growing active desire to find markets behind the Iron Curtain. Latent commercial interests are again coming to the fore.

The consequence of these developments has been a passive, sometimes outspoken resistance to expansion of security trade controls, and a rising pressure for reduction of restrictions on East-West trade. The recent revision of the international strategic lists went a long way toward alleviating this situation, but its further manifestation in connection with trade with Communist China is probably delayed only by reason of the exigencies existent in the present Asiatic situation and the strong U.S. views on the subject.

Differing Interpretations of Control Criteria

It has been and still is the United States' objective to deny or limit exports to the Soviet Bloc in Europe of goods which would contribute significantly to the war potential of the Soviet Bloc, and to maintain an embargo toward Communist China. CG participating nations agree to control goods of direct military importance to the Bloc, but do not generally agree that goods basic to the Bloc's industrial, defense-supporting effort should be similarly controlled. Nations adhering to the UN China Embargo Resolution do not feel impelled to maintain a complete embargo toward Communist China.

S E C R E T

Secret
S E C R E T

-9-

These different viewpoints lead to differences in interpreting the control criteria and assessing the strategic character of items proposed for control. In large measure, they are responsible for the interminably long and difficult negotiations concerning some of the residual items not disposed of in the recent list revision (e.g., metal rolling mills, ships, etc.). At present, this presents an important problem for the U.S. because it makes it extremely difficult, if not impossible, to justify embargo of certain items we feel are highly strategic but which many PCs contend do not meet their interpretation of the criteria.

Differential Levels of Control Toward European Soviet Bloc and Communist China

The armistice in Korea afforded an opportunity for a number of free world nations to relax their trade controls toward Communist China and to build up pressures for a general reduction of the level of control toward China. They were restrained from actively pressing such proposals by the outbreak of hostilities in Indo-China, the political hassle over UN prisoners of war held by China, and the explosive Formosa situation. It is apparent that, when some or all of these tensions abate, there will be an insistent clamor for relaxation of strategic controls toward Communist China. Meanwhile, although CG participating countries have agreed to try to avoid significant frustration of China controls by reason of exports to Eastern Europe, it is not evident that there is a concerted effort toward this end.

Consequently, the future outlook indicates that the United States must prepare itself for a concerted drive by free world nations to relax China controls. Of immediate concern is the special problem posed by Japan.

S E C R E T

S E C R E T

-10-

Problems Arising from Special Country and Geographical Situations

It would be a mistake to assume that all differences in viewpoints are between the United States and all other CG members. Two outstanding examples illustrate this.

West Germany does not regard East Germany in the same light as the rest of the Soviet Bloc. Strong political, ethnological and emotional influences make the Western Germans ^{govt} unwilling to concede that the division of their country is more than a temporary separation. Hence, they feel that continued interzonal trade is vital, even in some strategic goods. Other CG participating nations adhere to the principle that East Germany should be treated as part of the Soviet Bloc. Although this German interzonal trade problem has not been officially brought into the open, some PCs are aware of it and developments may force official review of the issue in the CG structure.

Japan is the only Far Eastern member of the CG, although Hong Kong and Macao follow in varying degree the control policy of the United Kingdom and Portugal. Japan's geographical situation and historical trade with China cause it to react differently toward China trade than do other CG countries. During the long period of American post-war occupation of Japan, that country exercised controls toward China comparable to those of the U.S. but much more stringent than those of other CG countries. Since the peace treaty, Japan's controls have been brought into line with those of CG countries other than the U.S. Nevertheless, Japan's situation has been exacerbated by trade imbalances, difficulties in attaining economic stability, and more recently by the revision of the international lists. Japan contends that the latter action operated to her disadvantage because it expanded opportunities for trade by Western European countries with Eastern Europe - even to the extent of providing some transshipments from Eastern Europe to China - without affording

S E C R E T

-11-

similar benefits to Japan which, because of geographical location, is unable to expand trade with Eastern Europe. At the present time, Japan appears to be adhering to the CG/CHINCOM policy but seems to be maximizing her attempts to trade with China by exploiting exceptions and loopholes in the China controls. When Japan finds a propitious opportunity, she will probably demand a liberalization of the China controls. It is likely she will get much support from other CG members.

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Participation in CG Structure Activities

The United States maintains a full delegation in Paris, including permanent representatives to CG and COCOM/CHINCOM. Most control proposals have been submitted by the U.S. and a considerable part of the technical, economic, political, military, and intelligence support in CG/COCOM/CHINCOM has been provided by Washington. However, most participating governments do not maintain comparable permanent delegations in Paris, and contribute little or no technical or intelligence support. Most participating governments confine their activities to matters which affect their own particular interests.

Review

This minimal participation in CG structure activities by most PCs places the U.S. at a disadvantage in marshalling intelligence and gaining support for security export proposals. It tends to set in motion a process of deterioration or growing indifference toward CG structure activities. Consequently, it would appear vital for the U.S. to seek methods of overcoming such apathy in order to maintain and increase the effectiveness of this valuable multi-lateral operation.

S E C R E T

S E C R E T

-12-

Philosophy Toward East-West Trade

Last year Sir Winston Churchill emphasized the philosophy of trade as an alleviator of tensions between East and West. The United States has not disputed this philosophy, but has cautioned that the Kremlin and the Soviet Bloc utilize foreign trade to achieve political ends, to further their economic penetration of Western countries, and to promote the longer range objectives of Communism. The problem is not so much one of opposing viewpoints between the U.S. and other CG participating countries as it is one of maintaining constant watchfulness lest the desire of the free world to develop peaceful trade as a basis for ultimate peace between East and West might become a springboard for the accomplishment of Communist unfriendly designs.

Different Evaluations of the Communist Threat

In the free world there are some who view existing tensions as a battle between the Soviet giant and the American colossus. Some are inclined to dismiss hostile designs and actions of the Soviet Bloc as purely defensive or merely competitive in an overall economic contest. The United States has tried, particularly in advocating COCOM discussions of Soviet Bloc trade trends and tactics, to emphasize the long-range objectives of the Communists, which are antagonistic to the ideology and economic freedom of Western countries. The skill of the Communists in shifting attention from their ultimate objectives by short-term peaceful tactics should not obscure their fundamental design. Admittedly, it is difficult to determine the extent to which this difference of viewpoint affects the approach of other governments to security trade controls or gives rise to some of the issues and problems which manifest themselves in the day-to-day operations of COCOM and CHINCOM.

S E C R E T

S E C R E T

-13-

Resentments Against the United States

There are many evidences of Western solidarity and unity. Not the least of these is the existence of the CG structure. Notwithstanding, some PCs harbor resentments toward the United States which tend, in varying degree and at different times, to make the cooperative control effort more difficult. The most recurrent and apparent resentment by CG participating governments against the United States is in connection with our commercial policy. Denmark alluded to it in strong terms at the CG meeting in July 1954. This resentment follows the thesis that the United States does not suffer by cutting down trade with the Soviet Bloc, whereas other free world countries who do so are placed under serious economic disadvantages because their access to markets within the free world, especially in the U.S., is restricted by official trade barriers. (This leads to attacks on U.S. protective tariffs, the Buy American Act, the regulations requiring use of American vessels to carry aid cargoes, U.S. customs procedures, etc. This form of attack against the United States serves to remind us of the need for remaining a "good neighbor", doing what can be done to remove trade barriers within the free world orbit, and generally eliminating minor harassments which might inhibit the effective multilateral implementation of security export controls.

*Some
favorable
US action*

Unanimity

The CG structure operates under a rule of unanimity. No policy can be adopted or action taken by the CG structure if a single PC objects. Since there are fifteen PCs, including the U.S., it is apparent that multilateral decisions are not easily achieved. Strong negotiating efforts by the U.S. are generally required. It has been necessary to approach certain PCs

S E C R E T

S E C R E T

-14-

bilaterally and some at top Governmental levels. In recent negotiations, the U.S. has found it necessary to isolate a single objector in order to bring the collective judgment of all other PCs to bear. This method has succeeded in a number of instances, but not always. It must be borne in mind that the rule of unanimity preserves the sovereign rights of each PC, including the U.S., ^{needed by other PC's to have been} and is indispensable to the existence of the CG organization. On the whole, this rule cannot be regarded as a paramount obstacle to the attainment of our multilateral control objectives, despite the expressions of concern it evokes in some quarters when progress appears slower or less complete than some would desire.

S E C R E T

S E C R E T

-15-

III. Appraisal and ConclusionsAppraisal

to be redrafted

The establishment of the CG organization was a precedent-shattering event of considerable importance in this history of world affairs. It was not easily or quickly achieved. The task of overcoming some of the obstacles blocking this achievement was assisted by the post-war economic plight of the Western European nations and the advent of the U.S. Marshall Plan. Unwitting help came from some of the antagonistic actions of the Bloc. Fundamentally, however, the creation of this voluntary, cooperative, multi-lateral organization was made possible because of two primary reasons: (1) the fact that the cooperating governments and their peoples generally shared, albeit in varying degrees and with reluctance in some instances, our mutual security objectives; and (2) the fact that the United States proceeded in a firm, determined but cooperative manner to explain and win adherence to the common security policy.

The continued existence of the CG structure as a reasonably effective instrument to carry out the security control objectives is attributable to the continuing support of these objectives by the U.S. and the cooperating nations, to the flexibility and adaptability of the program, to the soundness of the underlying principles, and to the wisdom and voluntary character of the decisions on day-to-day operations.

This is not to say that the multilateral operation has been completely successful or fully effective. There have been some failures, some deficiencies. There are additional controls, commodity-wise and enforcement-wise, which the United States still desires. The problem of different levels of controls toward the European and Asiatic areas of the Soviet Bloc is becoming

S E C R E T

-16-

more vexatious. There are old and new differences of viewpoints among the cooperating governments, particularly with respect to interpretation of control criteria, which affect the vigor and scope of the collective control system.

Nonetheless, it requires no great stretch of imagination to conjecture what the situation would have been, and would be now, if there were no multi-lateral control structure. There would be no concerted security export control effort by free world nations, no uniformity of policy and activities. Free world countries would actively compete for markets behind the Iron and Bamboo Curtains. The Soviet Bloc would be able to play off one free nation against another with its trade tricks and practices. Without the CG structure, the United States might stand today virtually alone, seeking vainly to maintain strategic controls toward the Bloc while other friendly countries rendered these controls inutile by supplying comparable strategic goods to the Bloc.

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Despite its inherent deficiencies and recognized weaknesses, the CG organization has had an impact on the Soviet Bloc. (Of course, export controls per se cannot prevent the build-up of Soviet Bloc war potential and economic strength; at best, they can only contribute toward inhibiting the extent to which the Bloc can build up its military and industrial might and the rapidity with which it does so.) In a material sense then, the CG organization has deprived the Bloc of some strategic goods, retarded its build-up of military and industrial potential, and created problems for Communist military and economic planners. (In another and perhaps even more important sense, the CG structure has stood as an outstanding symbol of free world solidarity and strength, giving cause for serious reflection by Communist leaders.

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S E C R E T

-17-

In looking toward the future, it is appropriate to take cognizance of the problems and differences of viewpoints which continue or are developing. Awareness of these should help to indicate the direction which future U. S. efforts should take in seeking to achieve more fully our security objectives, to improve the effectiveness of security export controls, and to preserve and maximize the benefits of multilateral action.

Conclusions

1. In the existing CG organization, we have built at considerable effort a reasonably sound and effective multilateral structure and control operation.
2. In general, the success and accomplishments of the CG organization more than compensate for certain deficiencies and weaknesses.
3. While the CG structure has not prevented the build-up of Soviet Bloc military and industrial potential - and was never conceived as being able to do this through security export controls alone - it has hindered the Bloc in attaining military and economic growth much sooner and much more fully.
4. The existence of the CG structure symbolizes free world solidarity and strength, valuable to maintenance of Western unity and collective prosecution of democratic objectives, and disturbing to the designs and purposes of Communist leaders.
5. Future U.S. efforts should be directed toward the preservation and improvement of the CG structure, rather than toward seeking alternative methods for multilateral control cooperation.
6. Particular attention should be given to study of the more important problems and differences of viewpoints which continue or are developing in order to eliminate or minimize such impediments in the way of fuller cooperation and more effective operations.

S E C R E T